

FLORIDA PUBLIC SERVICE COMMISSION  
Capital Circle Office Center • 2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399-0850

M E M O R A N D U M

July 18, 1996

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYO)

FROM: DIVISION OF WATER & WASTEWATER (TOMLINSON) *CT BONGRAN*  
DIVISION OF LEGAL SERVICES (CROSBY) *JS H BL*

RE: DOCKET NO. 960257-WS - OAKS AT DEERWOOD - APPLICATION FOR  
EXEMPTION FROM FLORIDA PUBLIC SERVICE COMMISSION  
REGULATION FOR PROVISION OF WATER AND WASTEWATER SERVICE  
IN DUVAL COUNTY BY OAKS AT DEERWOOD APARTMENTS  
COUNTY: DUVAL

AGENDA: JULY 30, 1996 - REGULAR AGENDA - PROPOSED AGENCY ACTION -  
INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: S:\PSC\WAW\WP\960257WS.RCM

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DOCUMENT NUMBER-DATE

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FPSC-RECORDS/REPORTING

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**CASE BACKGROUND**

On February 29, 1996, this Commission received an application from Oaks at Deerwood (the Oaks or utility) for a reseller exemption pursuant to Section 367.022(8), Florida Statutes. According to Section 21.08(c)(14), Administrative Procedures Manual, staff has been given administrative authority to approve clear-cut or non-controversial requests for determination of exempt status. However, in this case, staff is bringing this application before the Commission for guidance regarding the Oaks' proposed method of allocation used in the development of rates.

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### DISCUSSION OF ISSUES

**ISSUE 1:** Should the Oaks at Deerwood be granted an exemption pursuant to Section 367.022(8), Florida Statutes?

**RECOMMENDATION:** Yes. The Oaks at Deerwood should be granted an exemption pursuant to Section 367.022(8), Florida Statutes. The Oaks should be required to file an annual report pursuant to the provision of Rule 25-30.111, Florida Administrative Code. (TOMLINSON, CROSBY)

**STAFF ANALYSIS:** As stated in the Case Background, on February 29, 1996, this Commission received an application from the Oaks for a reseller exemption pursuant to Section 367.022(8), Florida Statutes for the water and wastewater system. The primary contact person for the Oaks is Mr. Peter Campfield, the Regional Property Manager with ZOM Residential Services, Inc. The Oaks is owned by MBL Life Assurance Corporation. A statement was given by Mark Mahony, Senior Vice President of MBL Life Assurance Corporation, authorizing Mr. Campfield to act on their behalf. Mr. Campfield's address is 2269 Lee Road, Winter Park, Florida 32789-1865. The application was signed by Mr. Campfield.

The application was filed in accordance with Section 367.022(8), Florida Statutes, and Rules 25-30.060(1), (2), and (3)(h), Florida Administrative Code. Included with the exemption application was a statement setting out the statutory and factual basis for the exemption. The application acknowledged the requirements of Rule 25-30.111, Florida Administrative Code, regarding annual reporting requirements. The applicant also acknowledged the requirements of Section 367.122, Florida Statutes, which deals with the examination and testing of meters; and Rules 25-30.262 through 25-30.267, Florida Administrative Code which explain the responsibilities of the utility owner for insuring the accuracy of the meters.

The Oaks is an apartment community, consisting of 336 units. The Oaks is located at 10100 Baymeadows Road, Jacksonville, Florida 32256. The Oaks plans to purchase water and wastewater service from the City of Jacksonville (the City) and resell these services to the residents at a rate that does not exceed the actual price paid for the water and wastewater service.

Included with the application was a schedule of the utility's current rates and charges, an explanation of the reseller's proposed rates and charges, an explanation of the proposed method of billing customers for water and wastewater

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service, and a schedule showing the amount billed will not exceed the amount paid for water and wastewater. Enviro-check will read the master meter monthly and will bill the residents accordingly on behalf of the Oaks. The Oaks does plan on charging a \$25.00 insufficient funds fee for any check which is returned from the bank for lack of funds, pursuant to Section 832.07(1)(a), Florida Statutes. This charge is not regulated by the PSC and was included for purposes of disclosure. The Oaks does not propose any other miscellaneous/administrative charges or security deposits. The Oaks will be responsible for service to common areas. The utility does not propose to charge any additional administrative/processing fees to the residents. Furthermore, the applicant acknowledged Section 837.06, Florida Statutes, regarding false statements.

The reason this exemption filing is distinctive is the request by the Oaks to use a particular allocation methodology in designing rates which is different than the methodologies that have been previously approved by this Commission. In the past, rates have been designed by dividing all costs (fixed and variable) by the number of apartment units, or by dividing fixed costs by number of apartments and using the actual usage based on individual apartment meters. In this case, the existing plumbing infrastructure in each building at the Oaks is not conducive to the installation of individual water sub-meters in each apartment. Because of this, the Oaks is proposing a hybrid approach of allocating fixed costs by the number of apartments and allocating gallonage of all the apartments based on a ratio of the total number of residents to bathrooms.

Upon receiving the bill from the City, the base water and wastewater charge will be allocated evenly to each 336 apartments (\$1.25 for water and \$0.99 for wastewater per unit). The consumption from the two master meters would be added together to get the total consumption for the community for that month. Then, the total consumption amount would be reduced by 5% to recognize common area usage which is the responsibility of the Oaks. The remaining consumption, 95%, would then be allocated based on the number of residents per bathroom. Therefore, the allocated consumption would be divided by the total number of residents in all 336 apartment units. The Oaks contains 196 one bathroom and 140 two bathroom apartments for a total of 476 bathrooms. Lease statistics for the Oaks show that the average number of residents in a one bath unit is 1.14 persons and the average in a two bath unit is 1.67 persons.

To illustrate their allocation methodology, the Oaks submitted the following example based on an actual bill that the Oaks received from the City for one month's usage.

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**Actuals**

1. Total consumption from two master meters = 218,100 cf
2.  $218,100 \times .95 = 207,195$  cf for allocation
3. Base charges for water sewer are divided by the total number of apartments (336)
4. Allocated consumption is divided by the total number of residents (457) in all 336 apartment units.
5. The Oaks contains 196 one bath units and 140 two bath units. Lease statistics show that the average number of residents in a one bath unit is 1.14 persons and the average in a two bath unit is 1.67 persons.
6. Utility tax is applied to total water charges.

**The Oaks received the following bill from the City:**

Meter #1: Consumption 83,400 cu. ft.	
Meter #1: Water Charge	\$ 692.92
Public Ser. Tax	69.29
Wastewater Charge	<u>\$2,509.04</u>
TOTAL BILL (METER #1)	\$3,271.25
Meter #2: Consumption 134,700 cu. ft.	
Meter #2: Water Charge	\$ 990.46
Public Ser. Tax	99.05
Wastewater Charge	<u>\$3,950.57</u>
TOTAL BILL (METER #2)	\$5,040.08
TOTAL COMBINED BILLS FOR #1 AND #2	<b>\$8,311.33</b>

**Individual tenant bills:**

**Basis of calculations:**

1. The base charge for both water and wastewater is divided by the total number of apartments (336) and assigned to each apartment as the monthly fixed charge.
2. The consumption is divided by the total number of residents (457).
3. The Oaks contains:  
196 one bathroom apartments with an average occupancy of 1.14 residents.

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- 140 two bathroom apartments with an average occupancy of 1.67 residents.
4. The total base charge for water is \$418.40 (\$209.20 x 2) and wastewater is \$331.00 (\$165.50 x 2). The base charge per unit will be \$1.25 (\$418.40/336 units) for water and \$0.99 (\$331.00/336 units) for wastewater.
  5. The total consumption of 218,100 cu. ft. is reduced by 5% to 207,195 cu. ft. and divided by the total number of residents (457) or 2071.95 divided by 457 = 4.53 ccf per resident.

**The residents would have received the following bill from the Oaks:**

One bathroom:

Water Base Charge	\$ 1.25
Water Usage (4.53 ccf x 1.14 persons x \$0.58)	\$ 3.00
Public Ser. Tax	0.43
Wastewater Base Charge	\$ 0.99
Wastewater Usage (4.53 ccf x 1.14 persons x \$2.61)	<u>\$ 14.51</u>
TOTAL BILL (ONE BATHROOM)	\$ 20.18

Two bathroom:

Water Base Charge	\$ 1.25
Water Usage (4.53 ccf x 1.67 persons x \$0.58)	\$ 4.39
Public Ser. Tax	0.56
Wastewater Base Charge	\$ 0.99
Wastewater Usage (4.53 ccf x 1.67 persons x \$2.81)	<u>\$ 21.26</u>
TOTAL BILL (TWO BATHROOM)	\$ 28.45

**Accountability check:**

196 one bathrooms x \$20.18 =	\$3,955.28	
140 two bathrooms x \$28.45 =	\$3,983.00	
Total Revenue Collected by the Oaks:		\$7,938.28
Total Billed by City:		\$8,311.33

When evaluating reseller rate methodologies, staff has debated whether it is appropriate to use a traditional ratemaking "approach" or to allow for some creative, but reasonable options. In an effort to be conservative in the analysis of proposed methodologies, the staff initially evaluated the filings using a

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more traditional ratemaking approach. Section 367.022, Florida Statutes, does not specify the methodology to be used by resellers. It simply states that any person who resells water or wastewater service at a rate or charge that does not exceed the actual purchase price is exempt from Commission regulation.

The reseller industry faces the unique problem of trying to promote water conservation by apartment tenants, where construction of the complex did not contemplate installation of meters on individual apartments. In these situations, staff believes it is appropriate to review rate design options that attempt to simulate metered usage. By Order No. PSC-95-0953-FOF-WS, issued on August 7, 1995, in Docket No. 950280-WS, the Commission approved, on an interim basis, a methodology based on the amount of hot water used.

Pursuant to Section 367.022, Florida Statutes, staff believes that as long as a utility's methodology does not yield revenues which exceed the actual purchase price, the methodology should be considered reasonable. The Oaks' proposed methodology/rates would not result in revenues which exceed the amount paid to the City for the service. Therefore, staff believes that the methodology is reasonable and it should be approved.

Further, staff recommends that The Oaks' application for exemption as a reseller pursuant to Section 367.022(8), Florida Statutes, be approved. The Oaks should be required to file an annual report pursuant to the provisions of Rule 25-30.111, Florida Administrative Code.

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ISSUE 2: Should the docket be closed?

RECOMMENDATION: Yes. The docket should be closed. Staff believes no further action is necessary. (CROSBY)

STAFF ANALYSIS: Staff believes no further action is necessary and the docket should be closed.